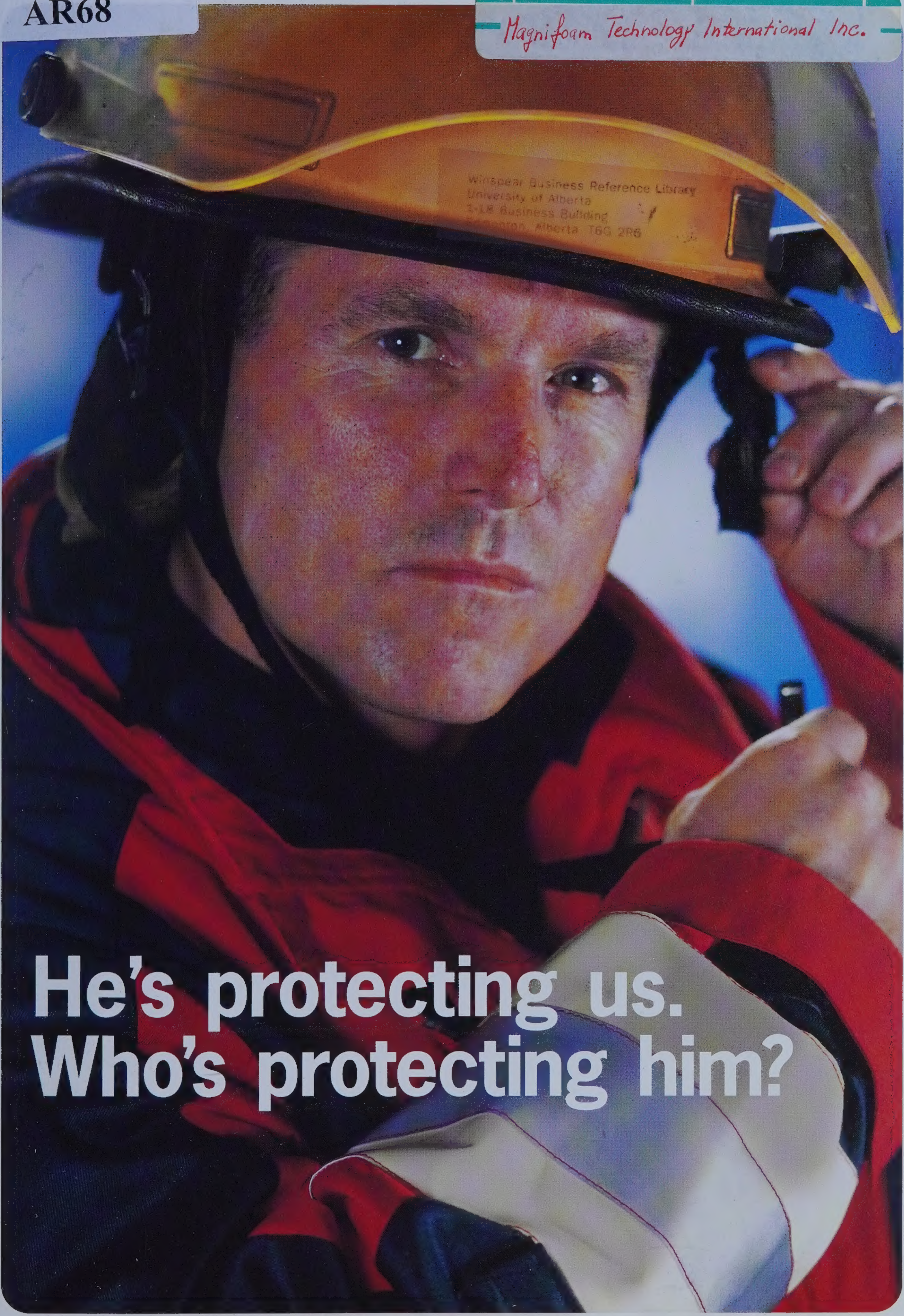
Magnifoam Technology International Inc.



He's protecting us. Who's protecting him?

MTII 2002 Annual Report

MAGNIFOAM TECHNOLOGY INTERNATIONAL INC.

CORPORATE PROFILE

Magnifoam Technology International Inc. (MTII) *designs, develops and manufactures custom-engineered products using silicone and other cellular materials. The company serves a variety of specialty niche markets and has three core businesses:* ***Silicone***, ***Fabricated Products*** *and* ***Aerospace***.

MTII's manufacturing divisions develop and produce silicone foam using patented technology, and design and fabricate energy management systems from a variety of flexible, cellular materials. Through its majority ownership of Leewood Elastomer GmbH, MTII produces and distributes specialty silicone elastomer products. MTII sells its products to the aerospace, mass transit, automotive, sporting goods, industrial, institutional, medical and electronic markets.

The company's head office and Canadian manufacturing operations are located in Mississauga, Ontario. International operations include a U.S. research and development, manufacturing and sales facility located in Richmond, Virginia, and a production and distribution facility in Bremen, Germany. Magnifoam's common shares trade on the Toronto Stock Exchange, under the trading symbol "MTG".

We are

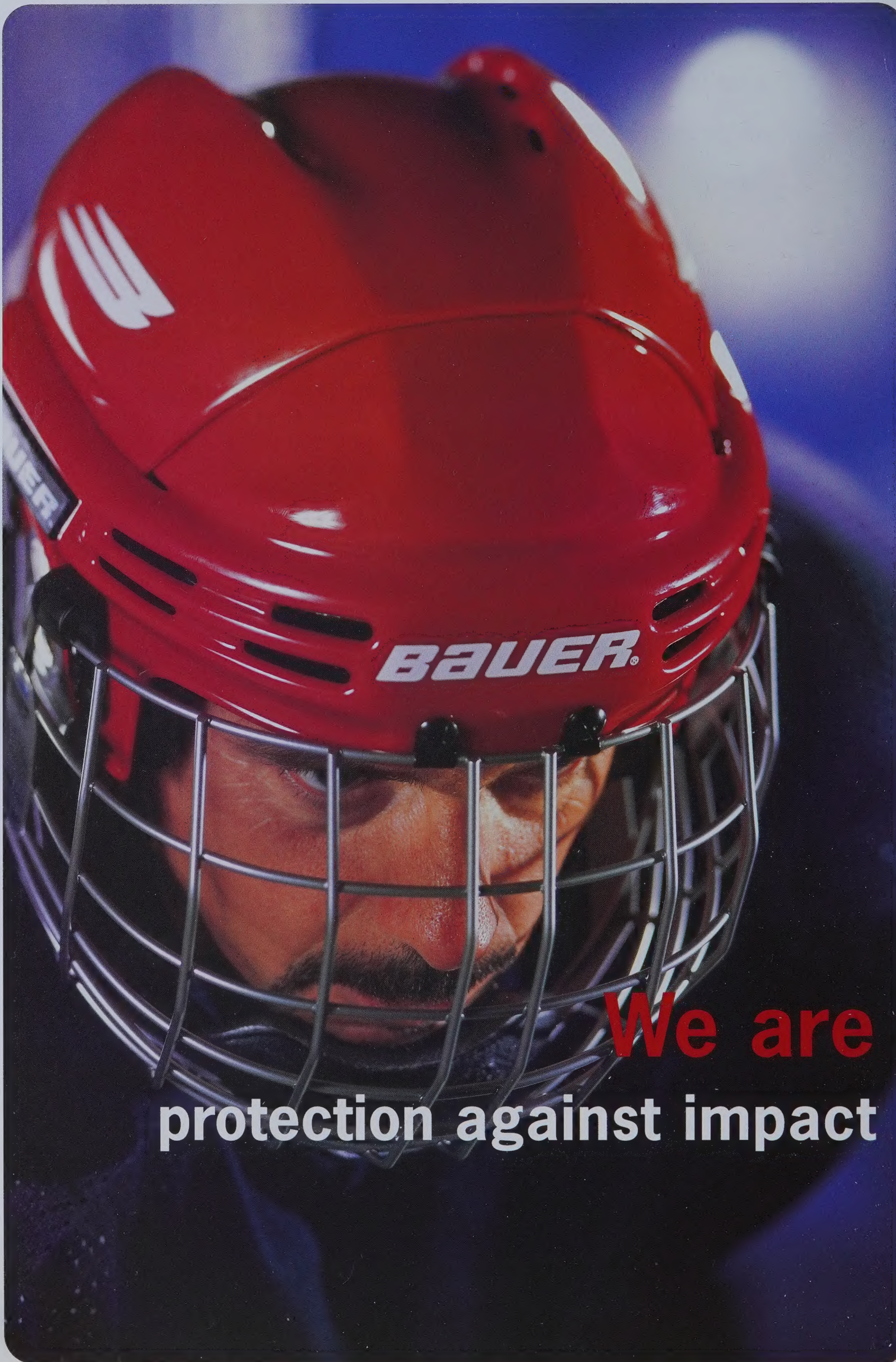
A focused, growth-oriented company, with proprietary products like a silicone foam liner co-developed with W.L. Gore & Associates to protect this firefighter from the hazards of his job ■ We are profitable, with world-class customers and state-of-the-art international facilities ■ We offer products with many unique benefits that are replacing traditional materials as a result of their superior performance ■ We are committed to ongoing research and innovation to create and maintain market leadership ■ We are developing new markets for our patented silicone foam to further diversify our revenue stream by customer, industry and geography ■ We have the strategy and manufacturing capacity to continue our record of growth ■ We have a strong balance sheet to pursue growth through the acquisition of complementary businesses and strategic partnerships.

We are **Magnifoam Technology International Inc.**


We are
comfort and safety for the ride

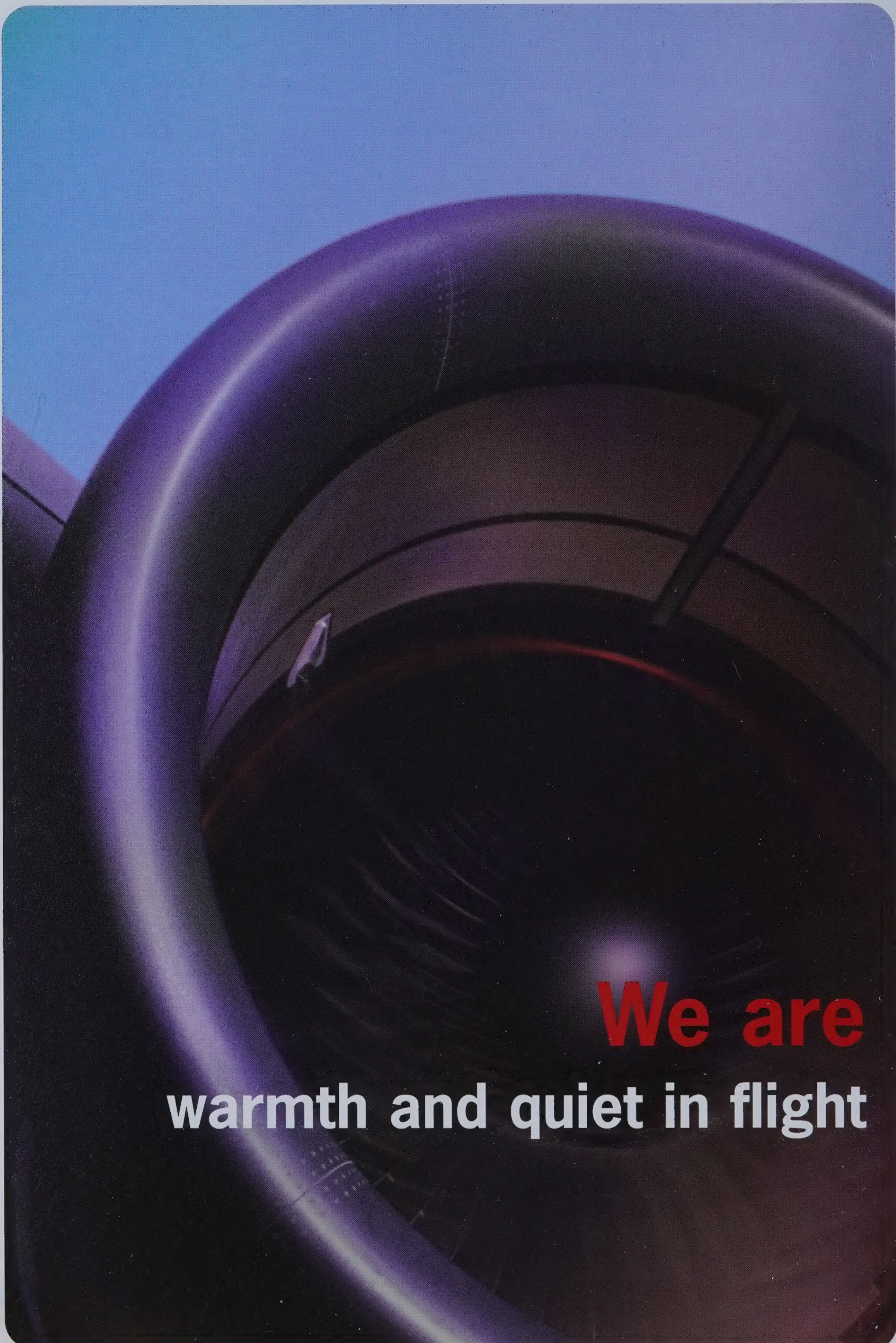
Silicone is our fastest growing business, largely as a result of the unique properties of Magnifoam™ silicone foam ▪ This thermally-stable product is highly resistant to burning, offers low toxicity and is resistant to fatigue, moisture, humidity and chemical degradation ▪ With performance characteristics like these, it's not surprising that our silicone foam outperforms comparable materials and products such as polyurethane ▪ As a result, we are displacing traditional materials in a variety of energy management applications for the mass transit, automotive, aerospace, fabricated products and industrial fabric markets ▪ No other company can do what we do ▪ Consequently, we have a growing, blue-chip customer base with customers or end users that include Cal-train, Long Island Rail Road, and W.L. Gore & Associates ▪ Our performance in the field has translated into repeat orders and opportunities to expand our existing relationships ▪ We have a large potential market, but our penetration to date is small ▪ That's why we continue to invest in our people, plants and equipment, to develop new applications for our exciting silicone foam technology.

silicone


BAUER
We are
protection against impact

Fabricated Products is a strategically important business for our company ▪ We manufacture a broad range of specialty products for the automotive, industrial and sporting goods markets ▪ Our focus on energy management systems has allowed us to develop a diverse product line – from heat shields and industrial gasketing to hockey and football helmet liners ▪ We have an equally diverse, world-class customer base, including Nike, General Motors and Honda ▪ Our focus is to capitalize on opportunities to displace traditional materials with cost-effective solutions that improve performance ▪ This value proposition is particularly appealing in the automotive sector, where we provide custom-engineered products that control heat, noise and vibration ▪ We have aggressively expanded sales to both original equipment manufacturers (OEMs) and their Tier 1 suppliers, such as Visteon, Delphi and Lear Corporation ▪ Our focus to date has been mostly "under hood" applications ▪ The superior performance of our silicone-based solutions will also allow us to improve interior passenger comfort.

fabricated products


We are
warmth and quiet in flight

Aerospace remains the largest part of our operations ▪ We are the dominant provider of custom-engineered insulation solutions for the world's leading business and regional aircraft manufacturers ▪ Our products include thermal-acoustic insulation systems, vibration dampening barriers, acoustical barriers and silicone carpet underpads ▪ These solutions create a safe, quiet and comfortable passenger environment ▪ Our customers include Bombardier and Embraer, two of the world's largest aircraft manufacturers ▪ We also supply integrated Tier 1 suppliers such as C&D Aerospace ▪ We have attained our leadership position by developing custom-engineered products that meet the specific needs of our customers ▪ This approach has also created strong "barriers to entry" for potential competitors ▪ We will not rest on our laurels ▪ Our highly qualified design and engineering team is committed to ongoing product innovation ▪ This commitment – and our ongoing dedication to continuous improvement – has allowed us to win new contracts, extend our customer base and increase our product content per aircraft during the past year ▪ Together, these attributes provide a strong foundation as we pursue the "retrofit" market for aircraft already in service.

aerospace

We are
Magnifoam Technology International Inc.






*Magnifoam Technology International Inc. is a research-based manufacturing company with three core businesses: **Silicone, Fabricated Products** and **Aerospace***

	PRODUCTS	MARKETS
Silicone	*Our Silicone business manufactures Magnifoam™ silicone foam, a patented product with many unique properties.*	■ Automotive ■ Mass transit ■ Aerospace ■ Fabricated products ■ Industrial applications
Fabricated Products	*Our Fabricated Products business manufactures a broad range of specialty products for niche markets.*	■ Automotive ■ Sporting goods ■ Industrial ■ Other specialty applications
Aerospace	*Our Aerospace business manufactures custom-engineered insulation solutions for the world's leading business and regional aircraft manufacturers.*	■ Business jets ■ Regional jets ■ Original equipment manufacturers ■ Business and regional jet retrofitting

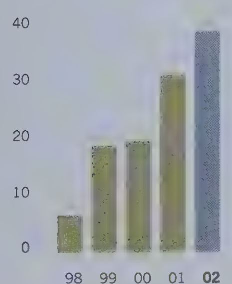
Fiscal 2002 Highlights

- Established springboard for European expansion through acquisition of 51% of Leewood Elastomer GmbH, a manufacturer and distributor of silicone elastomer products. Increased ownership of Leewood to 71% subsequent to year end.
- Increased order backlog to a record high of $200 million at fiscal 2002 year end.
- Increased sales 24% to a record $39.1 million.
- Reported operating cash flow of $5.6 million.
- Reported net income of $1.9 million ($0.09 per share). Reduced profitability caused by the aerospace slowdown after September 11, which resulted in the deferral of $5 million in Aerospace sales in the second half of fiscal 2002.
- Implemented cost-cutting measures to reduce overall cost structure.
- Improved efficiency of our Silicone business by consolidating all operations from Mississauga to our 35,592 sq. ft. facility in Richmond, Virginia.

SELECTED FINANCIAL INFORMATION

In millions of dollars, except per share and ratio data	2002	2001	2000
Sales	39.1	31.5	19.8
Operating Cash Flow	5.6	5.5	1.4
Net Income	1.9	4.0	1.1
Earnings Per Share (basic)	0.09	0.22	0.06
Working Capital	13.1	14.6	8.7
Total Assets	44.7	35.3	24.5
Shareholders' Equity	33.3	29.0	20.9
Debt/Equity	0.19:1	0.08:1	0.004:1
Total Common Shares Outstanding	20,196,834	19,406,834	18,129,334
Weighted Average Number of Shares Outstanding	19,906,500	18,701,607	17,983,438

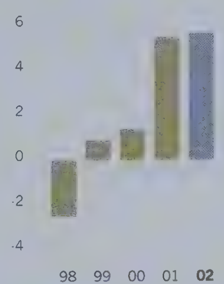
All figures are in Canadian dollars except as otherwise noted



SALES

$ millions

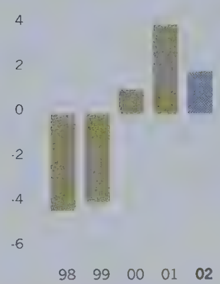
Since fiscal 1998, revenue has grown at a compound annual growth rate of 56%. This increase is the result of both internal growth and growth through acquisitions made in fiscal 1999 and fiscal 2002.



OPERATING CASH FLOW

$ millions

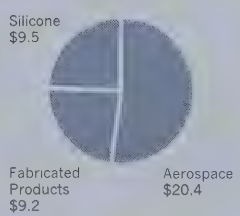
Operating cash flow increased dramatically from fiscal 1999 to fiscal 2001. The marginal increase in fiscal 2002 is the result of lower than anticipated sales and higher cost structure prior to the implementation of cost-cutting measures.



NET INCOME

$ millions

Net earnings rose sharply from fiscal 2000 to fiscal 2001, but decreased in fiscal 2002, as a result of lower than anticipated sales and the inclusion of a $1.1 million non-cash tax expense during the year.



SALES BY DIVISION

$ millions

During fiscal 2002, Magnifoam continued to diversify its revenue stream by division, customer and geography. Silicone is the company's fastest growing business, and contributed 24% of total sales during the year.

Message to Shareholders

William J. Neill
President and Chief Executive Officer

Fiscal 2002 was a challenging but ultimately successful year for Magnifoam. During the year, we made significant progress towards achieving many of our stated objectives for the company. We also reported our third consecutive year of profitability and made several important investments in our operations that have set the stage for continued revenue and earnings growth in each of our three core businesses.

FINANCIAL RESULTS

Total sales for the year ended March 31, 2002 grew 24% to a record $39.1 million. These results reflect strong gains in contribution from Silicone and solid sales growth from the continuing operations of Fabricated Products. Aerospace reported minimal growth this past year, a result of a slowdown in the aerospace industry following September 11, 2001. Approximately $5 million in sales were deferred in the second half of our fiscal year. Were it not for this slowdown, we would have achieved our original target of 40% total sales growth.

Despite the challenges faced in Aerospace, we delivered a marginal increase in operating cash flow and positive earnings for the company as a whole, a result of prudent measures taken to reduce our cost base. These measures will be more fully reflected in the upcoming fiscal year. Operating cash flow for fiscal 2002 was $5.6 million, compared with $5.5 million the previous year. Net earnings decreased to $1.9 million, or 9 cents per share, compared with $4.0 million, or 22 cents per share the previous year. The difference in bottom line results reflects the deferral of Aerospace sales and the new tax treatment that resulted in a $1.1 million non-cash tax expense charged against earnings.

RESULTS OF OPERATIONS

During the year, we delivered on the objectives set for each of our businesses.

We successfully grew Silicone sales through a combination of organic growth and the acquisition of a complementary company. Silicone sales more than tripled to $9.5 million this year, or 24% of total sales, a trend we expect will continue.

We continued to build on the momentum of the past two years, with strong revenue growth and investments in our operations that will allow this growth to continue.

FISCAL 2003 OBJECTIVES

1. *Double Silicone sales, by expanding sales of existing products, the development of new products and the opening of new markets.*
2. *Broaden Aerospace sales and double our current retrofit business.*
3. *Achieve minimum sales growth of 35% and double our earnings per share.*

During the year, we also commenced delivery of our previously announced contract to supply silicone foam for transit seating in 226 new commuter railcars used by Long Island Rail Road (LIRR), the largest commuter rail authority in North America. Our contract with AMI – seat supplier to Bombardier Transportation – has the potential of being extended to 1,034 cars or $10.5 million.

We also secured an exclusive contract with W.L. Gore & Associates to supply our patented MF1 silicone foam for use in Gore's high performance firefighter suits featured on the cover of this report. This contract follows five years of collaboration between our two companies to develop a fireproof insulation system for protective garments. The contract has a guaranteed minimum value of $2.5 million, with the potential to increase to $8.2 million over the three-year term.

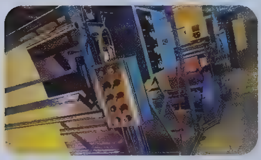
In August 2001, we acquired 51% of Leewood Elastomer GmbH, a German producer and distributor of specialty silicone elastomers. The acquisition of Leewood has significantly expanded the revenues, customer base and geographic reach of our Silicone business. Leewood is also complementary to our Aerospace and Fabricated Products businesses, and provides an established springboard for further penetration of European markets.

In Aerospace, we made considerable progress in broadening sales and product per aircraft with existing customers. We expanded our customer base through contracts with additional aircraft manufacturers and entered the retrofit market with our custom insulation systems.

During the year, we were awarded contracts with Bombardier to supply thermal-acoustic insulation systems for the Learjet 31A, 45 and 60 aircraft models. We also won a contract to design and supply the thermal-acoustic system for Bombardier's all-new Continental business jet, further broadening our dominance as a supplier of insulation systems for the business jet market. In addition to these contracts, we commenced delivery of our previously announced aircraft insulation contract with Embraer.

We have the strategy and manufacturing capacity to continue our record of growth through our existing operations.

MTII's 35,592 sq. ft. facility in Richmond, Virginia.



Custom designed machinery developed exclusively for the W.L. Gore contract.

While we launched our new jet retrofit business at the National Business Aircraft Association Show this past year, initial revenues were less than anticipated as a result of delays from aviation regulators following September 11. Originally, we expected to receive all regulatory approvals to install our retrofit insulation systems by the third quarter of fiscal 2002. We now expect all outstanding approvals will be granted in the first half of fiscal 2003.

In Fabricated Products, we exited the low-margin packaging business to focus on higher-margin opportunities in the automotive sector. As part of our aggressive strategy to increase automotive sales, we hired additional sales representatives – including a dedicated sales representative in Detroit. As a result, automotive sales grew from 27% of Fabricated Products sales in fiscal 2001 to 45% of sales in fiscal 2002, a trend we expect to continue.

FACILITIES AND EQUIPMENT

Concurrent with the growth we experienced this past year, we continued to invest in our equipment and our facilities.

We consolidated all North American silicone operations into a single plant in Richmond, Virginia, increased quality and reduced costs for this rapidly expanding business. Additional benefits of this consolidation include the fact that our plant is located close to QSi, LLC – our raw material supplier – which will facilitate further collaboration to create new applications for our proprietary silicone foam.

Our Aerospace operation in Mississauga, Ontario now has the additional capacity to further expand production. We have ordered a third water jet cutter to meet the needs of our expanding customer base, and have successfully negotiated several long-term supply contracts to reduce our material costs.

In the fourth quarter, we successfully completed the consolidation of Leewood's three facilities located in Finland, the United Kingdom and Germany into a single 66,000 sq. ft. facility located in Bremen, Germany. This state-of-the-art facility is now up and running, and will provide us with sufficient capacity to serve our existing customer base for elastomer products in Europe, as well as grow sales internationally.

We have a strong balance sheet to pursue growth through the acquisition of complementary businesses and strategic partnerships.

Leewood's new 66,000 sq. ft. facility in Bremen, Germany, was commissioned December 10, 2001.

OUTLOOK

Looking ahead, we have the people, the plants and the products in place to continue our record of strong top line growth. Our strategy for fiscal 2003 will also allow us to return stronger bottom line performance.

We are particularly excited about the potential to increase market share in Europe. As a result, we increased our ownership position in Leewood to 71% subsequent to year end. We have also agreed to collaborate with Amber Industrial Holdings plc – a specialized industrial chemical holding company – on product development, sales and marketing, as well as procurement, to accelerate the growth and profitability of our European operations.

Our objectives for fiscal 2003 are to:

1. Double Silicone sales, by expanding sales of existing products, the development of new products and the opening of new markets.
2. Broaden Aerospace sales and double our current retrofit business.
3. Achieve minimum sales growth of 35% and double our earnings per share.

We feel confident in our ability to achieve these objectives, as we had record backlog of $200 million at the end of fiscal 2002.

The outlook for Silicone is very strong. Aerospace is already on the road to recovery and we expect to continue to win new contracts in Fabricated Products. Our balance sheet is solid, with healthy liquidity and nominal debt. In short, we have a strong financial foundation and the management team in place to achieve our objectives.

ACKNOWLEDGEMENTS

On behalf of management and the Board of Directors, I would like to take this opportunity to thank our employees for their hard work and professionalism during a year that has produced both challenges and many new, exciting opportunities. A special acknowledgement to Robert Keto, our former President and Chief Executive Officer, for his contributions to the company prior to his retirement in November 2001. I would also like to thank you, our shareholders, for your continued confidence. We look forward to rewarding you with improved returns on your investment in the years to come.

William J. Neill
President and Chief Executive Officer
May 16, 2002

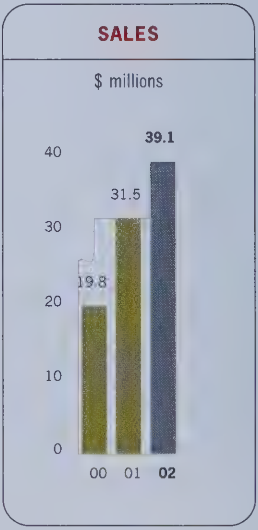
Management's Discussion and Analysis

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements of the Company and accompanying notes for the 12-month period ended March 31, 2002. All figures are in Canadian dollars except as otherwise noted.

Results of Operations

The Consolidated Financial Statements of MTII for the year ended March 31, 2002 include the results of its two wholly owned subsidiaries, Magnifoam Technology Inc. (MTI) and Magnifoam Delaware Inc. (MDI) and, for the first time, the results for eight months of its 51% owned subsidiary Leewood Elastomer GmbH (Leewood), which was acquired August 1, 2001.

MTI includes the operations of the Aerospace and General Fabrication divisions, MDI includes the North American Silicone operations, while Leewood includes the European Silicone operations.



SALES

Sales increased $7,569,565 or 24% to $39,103,357 in fiscal 2002, from $31,533,792 in fiscal 2001. Included in fiscal 2002 sales is $4,629,029 of sales by Leewood for the eight-month period that commenced August 1, 2001. Excluding Leewood, organic growth was $2,940,536, an increase of 9% for the year.

Aerospace sales increased $1,067,751 or 6% during the year. This modest increase is a result of the deferral of about $5 million in Aerospace sales following the terrorist attacks of September 11, 2001.

Fabricated Products sales decreased $185,041 or 2% in fiscal 2002. Fiscal 2001 sales included approximately $1.5 million in packaging sales. The packaging business was sold early in fiscal 2002 for a profit of $257,615.

Silicone sales increased $6,686,855 or 240% in fiscal 2002. Included in the increase are Leewood's eight-month sales of $4,629,029.

GROSS MARGINS

Gross Margins for fiscal 2002 averaged 45.1%, down from 49.3% for fiscal 2001 and short of the 48% target. The shortfall is primarily the result of a change in sales mix year-over-year. Aerospace sales, which garner the highest margins, were 51% of fiscal 2002 sales, compared to 61% of fiscal 2001 sales.

In fiscal 2002, sales increased 24% to $39.1 million, reflecting strong gains in Silicone, solid growth in Fabricated Products and modest growth in Aerospace.

William J. Neill
A director since September 1999, Mr. Neill was appointed President and Chief Executive Officer of Magnifoam in November 2002. Previously, he served as Senior Vice President, Rogers Media Inc. Prior to his appointment at Rogers Media, Mr. Neill served in senior executive roles for such companies as Sun Media Corporation, the Financial Post, The Ottawa Sun, the Financial Post Magazine and DataGroup.

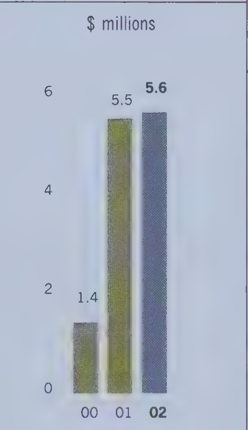
OPERATING EXPENSES

Total Operating Expenses increased 20% from $10,009,866 in fiscal 2001 to $12,004,461 in fiscal 2002. The Richmond, Virginia plant was commissioned January 26, 2001. Therefore, fiscal 2001 operating costs include only two months of Richmond's operations versus a full year of operations in fiscal 2002. Fiscal 2002 Operating Expenses also include eight months of Leewood's operations compared to nil in fiscal 2001.

OPERATING CASH FLOW

Operating Cash Flow for fiscal 2002 was $5,612,055 ($0.28 per share), which was marginally higher than fiscal 2001. However, as a percentage of sales, Operating Cash Flow decreased to 14.4% from 17.6% the previous year. The majority of the reduction resulted from the aerospace slowdown following September 11. The Company made certain adjustments to its cost structure post September 11, but is ahead of itself at the $39 million sales level. To meet its target of 35% sales growth in fiscal 2003, nominal fixed cost additions will be required. As a result, Operating Cash Flow as a percentage of sales will be higher. The target for fiscal 2003 is 17%, with a three-year target of 20%.

OPERATING CASH FLOW



OTHER EXPENSES

Other Expenses increased $1,090,778 or 72% in fiscal 2002 to $2,598,355, from $1,507,577 in fiscal 2001. There are two principal reasons behind this increase:

1) Amortization of capital assets, patents and deferred charges increased by $806,302. This increase is a direct result of the addition of depreciable capital assets and deferred charges of about $7 million.

2) Interest expense increased to $310,961 from $37,686. This increase reflects the interest carry on the Company's long-term debt, which is discussed later in this analysis.

OTHER ITEMS

At the beginning of fiscal 2002, the Company disposed of its packaging business, which resulted in an accounting gain on disposal of $257,615. In addition, certain costs were incurred outside of Operating Expenses to relocate the Silicone bun stock line from Mississauga to Richmond, as well as the consolidation of three facilities into one plant at Leewood. The combined cost for these activities totaled $355,614.

Management believes the Company has sufficient working capital to achieve its near-term growth objectives.

INCOME TAXES

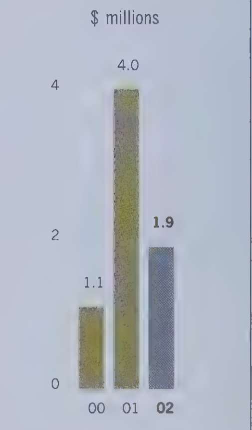
At the end of fiscal 2001, the Company adopted the liability method of accounting for income taxes. As a result, an income tax expense of $1,073,590 was set up in fiscal 2002, even though the Company had no cash taxes payable due to tax losses being carried forward from previous fiscal years. In fiscal 2001, the Company's income tax expense totaled $19,696.

At March 31, 2002, the Company's tax losses carried forward were essentially nil. As a result, the Company will be required to pay income taxes in fiscal 2003. The average income tax rate is 34%.

NET INCOME

Net Income after tax was $1,853,076 in fiscal 2002 or $0.09 per share, down from $4,025,982 or $0.22 per share in fiscal 2001. The two major contributors to this reduction were the $5 million deferral of Aerospace sales resulting from September 11, 2001 and the increase in income tax expense of $1,053,894.

NET INCOME



LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2002, the Company had working capital of $13,089,380 ($3,140,051 cash), compared to $14,626,222 ($3,491,289 cash) at March 31, 2001.

Management considers the current level of cash and its short-term debt capacity (the available amount of which is dependent on the levels of accounts receivable and inventory) to be sufficient to meet its near-term growth objectives.

CURRENT ASSETS

The Company's Balance Sheet has changed considerably since March 31, 2001, due mainly to the consolidation of Leewood. Included in the March 31, 2002 Current Assets are Leewood's accounts receivable of $1.2 million and inventory of $1.5 million.

Ronald S. Brooks C.A.
Mr. Brooks joined Magnifoam in 1997 and is currently Senior Vice President, Chief Financial Officer and Treasurer of the Company. A Chartered Accountant, he began his career at Clarkson Gordon (now Ernst & Young). With over 15 years of banking experience, Mr. Brooks previously held the position of Vice President, Corporate Finance at Hongkong Bank.

Terry C. Craig
Mr. Craig joined Magnifoam's PolyFab operations in 1995 and is currently Vice President, Operations, responsible for production logistics, engineering and manufacturing functions for Aerospace and Fabricated Products, as well as sales and marketing for the Fabricated Products business. With a diploma in Business Administration, Mr. Craig previously owned and operated a consulting company specializing in services to automotive OEMs and Tier 1 manufacturers in both Canada and the U.S.

DUE FROM RELATED PARTIES

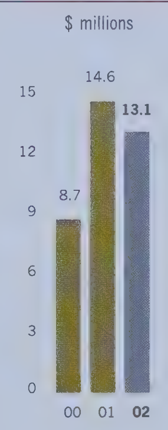
Note 4 to the March 31, 2002 Financial Statements details the Related Party transactions. The major component of these transactions is loans that were made during fiscal 2001 to the Magnifoam Share Partnership. These transactions are fully explained in the Management Information Circular, which is mailed to all shareholders concurrent with this Annual Report. The Company has formally requested the repayment of these loans, and repayment is expected to occur by August 15, 2002.

CAPITAL AND INTANGIBLE ASSETS

Both of these asset accounts increased significantly in fiscal 2002. The net increase was $9.1 million, after giving effect to certain disposals and amortization. The major increases were from:

(millions of dollars)		
Leewood's capital assets	$	4.5
Goodwill from the Leewood purchase		2.6
Deferred development costs		1.6
MTI and MDI capital expenditures		1.4
	$	10.1

WORKING CAPITAL



CAPITAL EXPENDITURES

During fiscal 2002, the Company acquired $1,408,273 of capital assets for cash, compared to $1,952,336 in fiscal 2001. Most of the fiscal 2002 expenditures were for new production equipment to meet future growth requirements.

The Company's fiscal 2003 budget calls for additional capital expenditures of about $1.5 million. The two major items to be added are a third WaterJet cutter for the Aerospace division and a new Company-wide computer system to improve manufacturing, inventory and fiscal controls.

CURRENT LIABILITIES

Current Liabilities increased by $2,104,016 to $5,550,454 as at March 31, 2002, due mainly to the consolidation of Leewood. As at March 31, 2002, Leewood's short-term bank debt was $1,532,777 and its accounts payable were $1,313,877.

Management anticipates strong bottom line growth as it expands sales both domestically and internationally.

Remmer Mammen

Mr. Mammen has 16 years of management experience and has worked in the silicone rubber operations of Leewood Elastomer GmbH for the past seven years. With a MBA, Engineering, he currently serves as Managing Director and is focused on growing MTII's operations in Europe.

LONG-TERM LIABILITIES

With the acquisition of Leewood, the Company took on two pieces of additional debt during fiscal 2002. Leewood arranged a term loan with a local German bank to assist in its operational consolidation in Bremen, Germany. The loan for 1.6 million Euros ($2,220,960) bears fixed interest of 5.6% for seven years.

Leewood, upon its acquisition of Leewood – Sweden, provided notes to the selling shareholders as part of its consolidation process. The notes total 750,000 Euros ($1,040,975), bear no interest and have no set repayment terms (e.g.: the notes are not payable on demand). Neither of these loans carry recourse to MTII, MTI nor MDI. Subsequent to year end, MTII increased its ownership in Leewood to 71%. As part of this transaction, 535,000 Euros ($742,562) was repaid by Leewood to the note holders. Details of this transaction are contained in the Company's news release of June 7, 2002.

The other piece of Long-Term Debt is the Industrial Revenue Lease Bond arranged for the Richmond operation, which is fully described in Note 8 to the Financial Statements.

Risks and Uncertainties

GENERAL

The Company has substantially reduced the operating risks normally inherent in manufacturing companies. The order backlog, which contains delivery timing, allows for careful planning of personnel, production equipment, premises and the necessary financial resources.

The events of September 11 had a negative impact on the Company with the postponement of $5 million in sales. However, the Company's strong financial condition allowed it to withstand this shortfall well. The Company continues to monitor its Aerospace order book and has taken prudent cost-cutting measures so that costs are in line with the near-term order book.

The Company has also taken steps to reduce its reliance on one customer, which, in fiscal 2002, accounted for 51% of its revenues (down from 61% in fiscal 2001). This downward trend will continue with the addition of new Aerospace customers and through the growth of Silicone and Fabricated Products sales.

In addition, the Company has broadened sales geographically through the acquisition of Leewood, which introduces MTII's Silicone products into Europe. The Company has a very strong partner in Amber Industrial Holdings plc (MTII's largest shareholder), which will help the Company mitigate the risks involved in expanding into new geographic markets.

G.R. Schrotenboer

Mr. Schrotenboer joined Magnifoam in 1999 and is currently Vice President, Sales and Marketing. Mr. Schrotenboer holds a degree in Chemistry, and previously served in various sales and marketing positions for Ciba Specialty Chemicals, GE Silicones and Goldschmidt Chemical Company.

Marc M. Simard

Mr. Simard joined Magnifoam's PolyFab operations in 1996, where he worked in several positions prior to his current role as Vice President, Sales and Marketing for Aerospace. Mr. Simard holds degrees in Commerce and Public Administration and previously held various sales and marketing positions with The Dow Chemical Company in Midland, Michigan.

COMPETITION

MTII has the dominant position within the thermal and acoustical market for business and regional aircraft worldwide. In Silicone, the competitors are manufacturers of traditional materials, which the Company is seeking to replace. Management is not aware of any competitor that has the ability to make low density silicone foam that matches the properties of its particular products. This ability is protected by patents and processes that are proprietary to the Company.

FOREIGN EXCHANGE

In North America, the Company purchases almost all of its raw materials and makes almost all of its sales in United States currency. As a result, there is a natural hedge between the Canadian and the United States dollar.

In Europe, costs and sales are in Euros, except in the Swedish operation, where costs are in Swedish Crowns and the majority of sales are in the same currency.

ENVIRONMENTAL CONSIDERATIONS

MTII's operations do not involve the use or handling of toxic or hazardous substances. As a result, the Company is not subject to any extraordinary environmental legislation or regulation which could materially effect its operations, earnings or capital expenditures.

Outlook

Management is firmly committed to profitable growth and is confident in its ability to achieve this objective due to the strong order backlog that stood at $200 million at year end, its continuing efforts to control costs, improve operating efficiencies and attract and retain high quality employees.

Management believes its existing plants have the capacity to support approximately $100 million in annual sales, with nominal capital expenditures required to meet this level. As a result, management anticipates strong bottom line growth as it expands sales both domestically and internationally.

Management's Responsibility for Financial Reporting

Management of MTII is responsible for the preparation and integrity of the financial statements as well as the information contained in this report. The following financial statements of MTII have been prepared in accordance with Canadian generally accepted accounting principles which involve management's best estimates and judgements based on available information.

MTII's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. In recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that the financial statements have been prepared according to and within reasonable limits of materiality and that the financial information throughout this report is consistent with these.

The Audit Committee is appointed by the Board, and all of its members are outside directors. The Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the consolidated financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

BDO Dunwoody LLP, Chartered Accountants, serve as MTII's auditors. The Board of Directors of MTII, along with the management team, have reviewed and approved the financial statements and information contained within this report. BDO Dunwoody LLP's report on the accompanying financial statements follows. Their report outlines the extent of their examination as well as an opinion on the statements.

William J. Neill
President and Chief Executive Officer

Ronald S. Brooks C.A.
Senior Vice President and Chief Financial Officer

Auditors' Report

To the Shareholders of Magnifoam Technology International Inc.:

We have audited the consolidated balance sheets of Magnifoam Technology International Inc. as at March 31, 2002 and 2001 and the consolidated statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2002 and 2001, the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants
Toronto, Canada
April 26, 2002

Consolidated Balance Sheets

March 31	2002	2001
Assets		
Current assets		
CASH AND SHORT-TERM INVESTMENTS	$ 3,140,051	$ 3,491,289
ACCOUNTS RECEIVABLE *(note 1)*	8,695,774	8,353,208
PREPAID EXPENSES AND DEPOSITS *(note 2)*	983,708	1,110,882
INVENTORIES *(note 3)*	4,033,757	2,616,900
DUE FROM RELATED PARTIES *(note 4)*	1,786,544	1,463,781
FUTURE INCOME TAX ASSET *(note 5)*	–	1,352,000
	18,639,834	18,388,060
Future income tax asset *(note 5)*	133,000	92,000
Capital assets *(note 6)*	12,143,611	7,479,127
Intangible and other assets *(note 7)*	13,733,939	9,322,922
	$ 44,650,384	$ 35,282,109
Liabilities and Shareholders' Equity		
Current liabilities		
BANK LOAN *(note 8)*	$ 1,532,777	$ –
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	3,779,677	3,292,680
CURRENT PORTION OF LONG-TERM DEBT *(note 9)*	238,000	153,758
	5,550,454	3,446,438
Long-term liabilities		
LONG-TERM DEBT *(note 9)*	4,482,865	2,461,295
DUE TO RELATED PARTIES *(note 16)*	1,040,975	–
FUTURE INCOME TAX LIABILITY *(note 5)*	302,000	390,000
	5,825,840	2,851,295
Commitments *(note 10)*		
Non-controlling interest	17,962	–
Shareholders' equity		
SHARE CAPITAL *(note 11)*	38,200,487	35,714,461
CUMULATIVE TRANSLATION ADJUSTMENT	(67,350)	–
DEFICIT	(4,877,009)	(6,730,085)
	33,256,128	28,984,376
	$ 44,650,384	$ 35,282,109

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements

Approved on behalf of the Board:

William J. Neill
Director

David S. White
Director

Consolidated Statements of Deficit

For the years ended March 31		2002		2001
Deficit, beginning of year	$	(6,730,085)	$	(11,844,564)
Adjustment for future income taxes *(note 5)*		–		1,088,497
Adjusted opening deficit		(6,730,085)		(10,756,067)
Net income for the year		1,853,076		4,025,982
Deficit, end of year	$	(4,877,009)	$	(6,730,085)

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements

Consolidated Statements of Operations

For the years ended March 31		2002		2001
Sales	$	39,103,357	$	31,533,792
Cost of sales		21,486,841		15,970,671
Gross margin		17,616,516		15,563,121
Operating expenses				
PLANT AND LABORATORY		5,109,830		4,425,961
ADMINISTRATIVE		4,454,443		3,515,497
MARKETING		2,440,188		2,068,408
		12,004,461		10,009,866
Operating income before the following items		5,612,055		5,553,255
Other expenses and income				
INTEREST EXPENSE		310,961		37,686
BAD DEBT EXPENSE		213,944		146,064
AMORTIZATION OF GOODWILL		457,904		457,904
AMORTIZATION OF CAPITAL ASSETS, PATENTS, AND DEFERRED CHARGES		1,842,151		1,035,849
INTEREST INCOME		(226,605)		(169,926)
		2,598,355		1,507,577
Income before other items		3,013,700		4,045,678
Other items				
GAIN ON SALE OF AN OPERATING DIVISION *(note 17)*		(257,615)		–
RELOCATION COSTS *(note 18)*		355,614		–
		97,999		–
Net income before income taxes		2,915,701		4,045,678
Income taxes *(note 5)*		1,073,590		19,696
Net income for the year before non-controlling interest		1,842,111		4,025,982
Non-controlling interest		10,965		–
Net income	$	1,853,076	$	4,025,982
Earnings per share *(note 12)*				
BASIC	$	0.09	$	0.22
FULLY DILUTED	$	0.09	$	0.21

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements

Consolidated Statements of Cash Flows

For the years ended March 31	2002	2001
Cash flows from operating activities		
NET INCOME FOR THE YEAR	$ 1,853,076	$ 4,025,982
ADJUSTMENTS FOR		
Amortization	2,300,055	1,493,753
Net deferred foreign exchange	(20,522)	(96,958)
Cumulative translation adjustment on foreign subsidiary	(67,350)	–
Non-controlling interest	17,962	–
Gain on disposal of an operating division	(257,615)	–
	3,825,606	5,422,777
NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES *(note 13)*	77,750	(4,413,474)
CASH PROVIDED FROM OPERATIONS	3,903,356	1,009,303
Cash flows from investing activities		
PURCHASE OF CAPITAL ASSETS	(5,832,855)	(1,952,336)
INTANGIBLE ASSETS PURCHASED AND ACQUIRED	(3,101,800)	(1,426,332)
ADVANCES FROM (TO) RELATED PARTIES	718,212	(1,127,587)
PROCEEDS FROM DISPOSAL OF AN OPERATING DIVISION	335,314	–
ACQUISITION OF SUBSIDIARY *(note 16)*	(653,309)	–
	(8,534,438)	(4,506,255)
Cash flows from financing activities		
REPAYMENTS OF LONG-TERM DEBT	(166,189)	(132,191)
ADVANCES FROM LONG-TERM DEBT	2,272,000	–
PROCEEDS FROM SHARES ISSUED, NET OF COSTS	641,256	2,920,359
	2,747,067	2,788,168
Net use of cash during the year	(1,884,015)	(708,784)
Cash and cash equivalents beginning of year	3,491,289	4,200,073
Cash and cash equivalents end of year	$ 1,607,274	$ 3,491,289
Consisting of:		
CASH AND SHORT-TERM INVESTMENTS	$ 3,140,051	$ 3,491,289
BANK LOAN	(1,532,777)	–
	$ 1,607,274	$ 3,491,289
Other information		
CASH PAID FOR INTEREST	$ 310,961	$ 113,414
CASH PAID FOR INCOME TAXES	$ 19,696	$ 26,059

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements

Summary of Significant Accounting Policies

For the years ended March 31, 2002 and 2001

NATURE OF BUSINESS

Magnifoam Technology International Inc. is an integrated material science company. Through its subsidiaries, the Company is engaged in the research, development and production of silicone resins and low density silicone foam using patented chemical technology, and the fabrication of energy management systems using a variety of flexible, cellular materials. The Company's products have a wide range of applications for the mass transit, automotive, civil and military aerospace, defence, marine, sporting goods, institutional and industrial markets. The Company is incorporated under the laws of Ontario.

CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Magnifoam Technology Inc. and Magnifoam Delaware Inc. and its 51% share of Leewood Elastomer GmbH. Intercompany transactions and balances are eliminated on consolidation.

USE OF ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

REVENUE RECOGNITION

The Company recognizes revenue on the accrual basis upon shipment of the product with a provision for estimated returns recorded at that time.

INVENTORIES

Inventories are valued at the lower of cost and net realizable value. Cost has been determined on the first-in, first-out basis.

CAPITAL ASSETS AND AMORTIZATION

Capital assets are recorded at laid-down cost. Amortization is provided using the straight-line method at the following annual rates, ½ in the year of acquisition:

Building	2.5%	Production equipment	5%
Computers	33%	Laboratory equipment	10%
Office furniture	10%	Leasehold improvements	over the term of the lease
Vehicles	30%		

PATENTS

Patents are recorded at cost and are being amortized using the straight-line method over their remaining legal and useful lives, which vary from 5 to 10 years.

DEFERRED CHARGES

Deferred charges are costs related to the design of a modified or new product. These costs are capitalized to the related program to the extent that their recovery can be regarded as reasonably assured. These costs are being amortized on a straight-line basis over four years, which is the estimated average length of the contracts. If at any time a program is no longer profitable, the costs are written off.

FUTURE INCOME TAXES

The Company follows the liability method of accounting for income taxes. Under this method, current income tax expense is recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

GOODWILL

Goodwill, being the excess of the purchase price over the assigned values of the net assets acquired, is stated at cost less amortization. Amortization is provided on a straight-line basis over its estimated useful life, which has been determined to be 20 years. The Company measures the value of its recorded goodwill on an ongoing basis. The determination of the value is dependent on several factors including sales volumes and discounted cash flows, ongoing technological feasibility and improvements and an estimate of the discounted net contribution margin to the Company's overall financial position. Any impairment in the value of the goodwill is written off against earnings.

Effective April 1, 2002, the Company will adopt, without retroactive restatement, the recommendations of the new CICA Section 1581 – Business Combinations and Section 3062 – Goodwill and Other Intangible Assets. The result of applying the above standards had the following effect on the financial statements:

a) Although the section will not be applied until April 2002, goodwill and intangibles with indefinite lives arising from business combinations with acquisition dates after June 30, 2001 should not be amortized. As a result, goodwill arising from the acquisition of Leewood Elastomer GmbH was not amortized in fiscal 2002. Goodwill and other intangible assets acquired prior to June 30, 2001 will continue to be amortized until section 3062 has been adopted in fiscal 2003. As a result, goodwill already on the books at the beginning of the year has been amortized in fiscal 2002.

b) Beginning in fiscal 2003, goodwill is not amortized and is tested for impairment at least annually and an impairment loss is recognized when the carrying amount of the goodwill of a reporting unit exceeds the fair value of the goodwill.

EARNINGS PER SHARE

Earnings per common share has been computed by dividing the income applicable to common shareholders by the weighted average number of shares of common stock outstanding during the respective years. Fully diluted earnings per common share gives effect to all dilutive instruments as if they had been exercised at the beginning of the year.

Effective April 1, 2001, the Company retroactively adopted the new accounting recommendations published by the CICA relating to the method of calculation and the presentation and disclosure requirements of earnings per share. The new recommendations, which are essentially aligned with the requirements of the U.S. Financial Accounting Standards Board Statement No. 128 on this subject, require the use of the treasury stock method instead of the imputed earnings method for calculating fully diluted earnings per share. The impact of the adoption of the new recommendations on the fully diluted earnings per share computation is not significant.

TRANSLATION OF FOREIGN CURRENCIES

Foreign operations are classified as integrated or self-sustaining. The Company classifies Magnifoam Delaware Inc. as an integrated foreign operation since its operations are closely tied with the parent, Magnifoam Technology International Inc. The Company classifies Leewood Elastomer GmbH as self-sustaining since there is little inter-relationship of the day-to-day activities to the parent.

SELF-SUSTAINING FOREIGN OPERATIONS – All assets and liabilities are translated at exchange rates in effect at year end. Revenues and expenses are translated at the average rates of exchange for the period. The resulting net gains or losses are shown under "Cumulative translation adjustment" in shareholders' equity.

ACCOUNTS IN FOREIGN CURRENCIES – Accounts in foreign currencies, including integrated foreign investees, are translated using the temporal method. Under this method, monetary balance sheet items are translated at the rates of exchange in effect at year end and non-monetary items are translated at historical exchange rates. Revenue and expenses (other than depreciation and amortization, which are translated at the same rates as the related assets) are translated at the rates in effect on the transaction dates or at the average rates of exchange for the period. Translation gains or losses are included in the statement of income, except those related to the transaction of long-term receivables and long-term debt, which are deferred and amortized to income over the remaining life of the related receivable or debt on a straight-line basis.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and short-term investments with original maturities of less than three months.

STOCK BASED COMPENSATION PLANS

The Company has a stock option plan. No compensation expense is recognized for this plan when stock options are granted to employees. Any consideration paid by employees on exercise of stock options is credited to share capital. Compensation expense is recognized for the Company contributions to the employee share purchase program.

Notes to the Consolidated Financial Statements

For the years ended March 31, 2002 and 2001

1. ACCOUNTS RECEIVABLE

	2002	2001
Trade accounts receivable	$ **8,778,379**	$ 8,693,402
Less allowance for doubtful accounts	**(82,605)**	(340,194)
	$ **8,695,774**	$ 8,353,208

2. PREPAID EXPENSES AND DEPOSITS

	2002	2001
Deposit on future inventory purchases	$ **557,132**	$ 957,417
Other prepaid items	**426,576**	153,465
	$ **983,708**	$ 1,110,882

3. INVENTORIES

	2002	2001
Raw materials and supplies	$ **2,152,200**	$ 1,693,491
Work in process	**493,009**	322,513
Finished goods	**1,388,548**	600,896
	$ **4,033,757**	$ 2,616,900

4. RELATED PARTY TRANSACTIONS

(i) DUE FROM RELATED PARTIES – CURRENT

	2002	2001
Loans to officers and directors (formerly the Magnifoam Share Partnership) *(note 4(e))*	$ **1,266,949**	$ 947,471
Loans to directors *(note 4(d))*	**152,410**	152,410
Loan to officer *(note 4(c))*	**48,345**	48,500
Due from shareholder *(note 4(f))*	**318,840**	315,400
	$ **1,786,544**	$ 1,463,781

(ii) RELATED PARTY TRANSACTIONS

a) During the year, the Company was charged $87,641 (2001 – $55,107) for legal work performed by a shareholder/ director who is the corporate legal counsel.

b) Certain beneficiaries of the Magnifoam Royalty Trust *(note 10(b))* are directors, officers and/or a principal shareholder of the Company. Royalties paid or payable to the trust amounted to $219,553 for the year ended March 31, 2002 (2001 – $95,958). Of this total, $13,754 was paid to officers and directors of the Company.

c) In 2000, the Company advanced $48,500 to an officer of the Company. The unsecured loan bears interest at 4% and is due June 30, 2002.

d) In 2001, the Company advanced $152,410 to two directors to exercise share options before expiry. The unsecured loans bear interest at 8% and are due June 30, 2002.

e) During the past two years, the Company advanced $1,266,949 (2001 – $947,471) to the Magnifoam Share Partnership to acquire on the open market common shares in the capital stock of the Company. The partners are officers and directors of the Company. The partnership was dissolved on August 1, 2001 and the shares were distributed to the partners in exchange for unsecured demand 8% promissory notes due June 30, 2002.

f) In 1998, the Company loaned US$200,000 to a shareholder to enable him to exercise options on 200,000 common shares. The purpose of this transaction was to facilitate the bridge financing obtained during that year. The loan bears interest at 4%, is due January 21, 2003 and is secured by 150,000 shares. The shares have a fair market value of $390,000 at March 31, 2002.

These transactions were completed in the normal course of operations and are measured at the exchange amount.

5. INCOME TAXES

During fiscal 2001 the Company adopted the liability method of accounting for income taxes. As a result, the opening deficit was adjusted to reflect the Company's future income tax position as of April 1, 2000. This adjustment related primarily to previously unrecognized tax losses.

			2001
a) Future income tax asset	– current	$	1,138,497
	– long-term		140,000
Future income tax liability	– long-term		(190,000)
Net adjustment to opening deficit		$	1,088,497

	2002	2001
b) Combined basic Canadian federal and provincial tax rate	**42.9 %**	43.1 %
Manufacturing and processing reduction	**(9.0)%**	(9.0)%
	33.9 %	34.1 %

		2002		2001
Tax on consolidated income	$	**884,000**	$	1,378,998
Application of losses carried forward		**–**		(1,675,500)
Non-deductible items		**20,590**		74,198
Current year's unrecognized loss in subsidiary		**169,000**		242,000
	$	**1,073,590**	$	19,696

The Company has losses of $840,000 in one of its subsidiaries which are available to reduce taxable income in future years. The tax benefit of these losses is not certain at the year end and therefore the losses have not been recorded for accounting purposes.

c) Future income taxes consist of the following temporary differences:		2002		2001
Future income tax asset – current				
Loss carry forwards	$	**–**	$	1,206,000
Other		**–**		146,000
	$	**–**	$	1,352,000
Future income tax asset – long-term				
Capital assets	$	**133,000**	$	92,000
Future income tax liability – long-term				
Capital assets	$	**302,000**	$	390,000

6. CAPITAL ASSETS

	2002 Cost	2002 Accumulated Amortization	2001 Cost	2001 Accumulated Amortization
Land	$ 301,420	$ –	$ 301,420	$ –
Building	3,438,831	87,101	2,787,239	17,420
Production equipment	8,411,928	805,061	4,195,728	672,191
Computers	898,277	937,734	810,900	682,346
Laboratory equipment	317,236	89,959	202,776	60,453
Office furniture	821,222	240,053	553,882	173,477
Leasehold improvements	510,606	421,290	447,891	250,950
Vehicles	38,231	12,942	38,231	2,103
	$ 14,737,751	$ 2,594,140	$ 9,338,067	$ 1,858,940
Net book value		$ 12,143,611		$ 7,479,127

During the year, the Company acquired $1,408,273 of capital assets for cash. The balance of capital expenditures were acquired upon acquisition of a subsidiary.

7. INTANGIBLE AND OTHER ASSETS

	2002	2001
Patents at cost, net of accumulated amortization of $244,443 (2001 – $209,571)	$ 441,634	$ 127,049
Goodwill at cost, net of accumulated amortization of $2,696,786 (2001 – $2,238,882)	10,211,862	7,447,171
Deferred charges, at cost, net of accumulated amortization of $1,116,199 (2001 – $399,862)	2,962,864	1,651,645
Net deferred foreign exchange	117,479	96,957
Investment in QSi at cost, representing a 10% interest	100	100
	$ 13,733,939	$ 9,322,922

8. BANK LOAN

One of the Company's subsidiaries is using its short-term borrowing facility which bears interest at 5.5% and is secured by the receivables and inventory of the subsidiary.

The Company has an available operating line of credit of $6,000,000, bearing interest at Royal Bank prime plus 0.5%, secured by a general security agreement.

9. LONG-TERM DEBT

	2002	2001
Capital lease obligation, interest at 6.53%, payable US$8,125 monthly principal payments plus interest, due April 2008, secured by a charge on the land and building	**$ 2,499,905**	$ 2,615,053
Term Bank Loans, interest at 5.6% to 6.3%, payable annually and semi-annually of $85,000 per year plus interest until March 31, 2004 when payments increase to $295,000, secured by assets of the Company's subsidiary Leewood Elastomer GmbH	**2,220,960**	–
	4,720,865	2,615,053
Less portion due within one year	**(238,000)**	(153,758)
	$ 4,482,865	$ 2,461,295

The interest on long-term debt amounted to $215,382 in 2002 (2001 – $35,731).

Payments due on the long-term debt during the next five years and thereafter are as follows:

2003	$ 238,000
2004	448,000
2005	658,000
2006	658,000
2007 and thereafter	3,537,997
	5,539,997
Less interest portion of payments	(819,132)
	$ 4,720,865

10. COMMITMENTS

a) LEASES

The Company has obligations under long-term leases for premises and office equipment for various periods up to March 31, 2004.

Future minimum lease payments are as follows:

Year	Amount
2003	$ 386,000
2004	$ 33,000

b) ROYALTY AGREEMENT

The Company is committed to a royalty payment of 3.5% of certain sales of Magnifoam Technology Inc. under an agreement which extends until February 22, 2012. The payments are made to a trust, the beneficiaries of which are certain individuals who were direct or indirect shareholders of the Company when the trust was created.

11. SHARE CAPITAL

a) AUTHORIZED:

Unlimited number of common shares

Unlimited number of preference shares

b) ISSUED:

	Number of shares		Amount	
	2002	2001	2002	2001
COMMON SHARES				
Balance, beginning of year	**19,406,834**	18,129,334	**$ 35,714,461**	$ 32,794,102
Shares issued to acquire subsidiary	**434,000**	–	**1,844,500**	–
Options exercised	**356,000**	552,500	**641,526**	847,905
Warrants exercised	–	725,000	–	2,175,000
Share issue costs	–	–	–	(102,546)
Balance, end of year	**20,196,834**	19,406,834	**$ 38,200,487**	$ 35,714,461

The warrants were exercised pursuant to a 1999 agreement with a shareholder, Amber Industrial Holdings plc and their acquisition of QSi, in which the Company holds a 10% interest *(note 7)*.

c) The Company grants stock options to directors and employees and accounts for these options when exercised. Currently, there are no vesting requirements for share options. The maximum term of the options granted is five years and there are 2,573,626 shares (2001 – 2,573,626 shares) authorized for granting of options. As at March 31, 2002, there were outstanding options to purchase 2,463,000 common shares exercisable as follows:

	2002		2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	**1,784,000**	**$2.04**	1,926,500	$1.97
Granted	**1,240,000**	**$3.45**	440,000	$1.69
Exercised	**(356,000)**	**$1.82**	(552,500)	$1.54
Forfeited	**(205,000)**	**$4.29**	(30,000)	$1.48
Outstanding, end of period	**2,463,000**		1,784,000	

12. EARNINGS PER SHARE

Effective April 1, 2001, the Company retroactively adopted the new CICA standard relating to the method of calculation of earnings per share. The standard requires the disclosure of the calculation of basic and diluted earnings per share, and the use of the treasury stock method for calculating the dilutive impact of stock options.

The following table outlines the calculation of basic and diluted earnings per share:

	2002	2001
Numerator for basic earnings per share:		
Net income	**$ 1,853,076**	$ 4,025,982
Denominator for basic earnings per share:		
Weighted average shares outstanding	**19,906,500**	18,709,607
Effect of potential dilutive securities:		
Stock options	**510,000**	367,000
	20,416,500	19,076,607
Basic earnings per share	**$ 0.09**	$ 0.22
Diluted earnings per share	**$ 0.09**	$ 0.21

13. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES

	2002	2001
Accounts receivable	**$ (342,566)**	$ (2,905,590)
Prepaid expenses and deposits	**127,174**	(887,369)
Inventories	**(1,416,857)**	(534,572)
Future income taxes	**1,223,000**	83,898
Accounts payable and accrued expenses	**486,999**	95,240
Provision for relocation costs	**–**	(175,000)
Income taxes payable	**–**	(90,081)
	$ 77,750	$ (4,413,474)

Decreases in assets and increases in liabilities result in a source of cash. Increases in assets and decreases in liabilities result in a use of cash and are indicated by brackets.

14. SEGMENT INFORMATION

The Company operates in one reportable segment. The Company's principal business activity is the development, manufacture and sale of silicone foam and the fabrication of energy management systems from a variety of flexible, cellular materials. The Company operates in three distinct markets: aerospace, fabricated products and silicone.

The following are the revenues with respect to the market segments previously described:

	2002	2001
SALES		
Aerospace	**$ 20,441,612**	$ 19,373,861
Fabricated Products	**9,188,227**	9,373,268
Silicone	**9,473,518**	2,786,663
	$ 39,103,357	$ 31,533,792

Sales to customers in foreign countries, primarily the United States and the European Union countries, amounted to $14,693,000 in 2002 (2001 – $6,180,000). The assets of the Company's U.S. subsidiary amount to $6,048,000 at the year end (2001 – $3,421,000). The assets of the Company's European subsidiary amount to $8,412,000 at the year end.

The Company had 47.8% (2001 – 59.5%) of its sales from various divisions of one key customer.

15. FINANCIAL INSTRUMENTS

a) FOREIGN EXCHANGE

The Company has significant sales in the United States which gives rise to a risk that its earnings and cash flows may be adversely impacted by fluctuations in foreign exchange conversion rates. As at March 31, 2002, the Company has $6,796,395 of accounts receivable denominated in U.S. dollars.

b) CREDIT RISK

The Company is exposed, in the normal course of business, to credit risk from its customers. A significant portion of the outstanding accounts receivable at March 31, 2002 is due from various divisions of one key customer.

c) INTEREST RISK

It is management's opinion that the Company is not exposed to significant interest risks arising from its financial instruments.

d) FAIR VALUE

The fair value of financial instruments with short-term maturities approximates their carrying values. The fair value of the long-term debt and the related party liability is estimated based on the Company's current borrowing rate for similar arrangements. There is no material difference between the fair value and the carrying value of these instruments.

16. ACQUISITION OF SUBSIDIARY

a) On August 1, 2001 the Company acquired 51% of Leewood Elastomer GmbH, a privately held manufacturer and distributor of silicone elastomer products based in Bremen, Germany. The purchase price of $2,608,833 was satisfied by cash of $764,333 and a share component of 434,000 common shares of MTII issued from treasury priced at $4.25 per share. The Company must increase its interest to 90% by March 31, 2006 based on pre-determined dates and multiples of 12 month trailing EBITDA. The remaining 10% may be "put" to the Company at the option of the holders at a pre-determined multiple of EBITDA.

As part of the acquisition, Leewood agreed to acquire the shares of a related company in Sweden. This transaction resulted in the minority shareholders, who have subsequently become shareholders in the Company, taking back interest-free promissory notes of 750,000 Euros with no repayment until 2005, conditional upon certain financial objectives of Leewood being met. The balance of these notes at March 31, 2002 is $1,040,975.

b) The net assets acquired were as follows:

Cash	$	111,024
Total assets acquired other than cash		6,282,119
Total liabilities assumed		(3,784,310)
Net assets acquired		2,608,833
Less: Cash of subsidiary		(111,024)
Shares issued to acquire subsidiary		(1,844,500)
Cash paid for acquisition of subsidiary, net of cash acquired	$	653,309

Of the net assets acquired on acquisition, $2,574,387 is attributable to goodwill.

17. SALE OF OPERATING DIVISION

During the year, the Company sold its expendable packaging division for $335,314 resulting in a gain on the disposition of $257,615.

18. RELOCATION COSTS

During the year, the Company relocated its silicone operation from Mississauga to Richmond, Virginia at a cost of $355,614.

19. COMPARATIVE FIGURES

Certain comparative balances have been reclassified to conform with the current year's presentation.

Directors and Officers

Rodney C. Vander Meersch [1,3]
DIRECTOR
Mr. Vander Meersch has served Magnifoam as a director since November 1995 and is Chairman of the Board. He has spent over 30 years working in various capacities for both Canadian and U.S. investment dealers. Mr. Vander Meersch is currently a Director of SG Cowen Securities, the U.S. investment dealer arm of the French bank Societé Général, and manages their Canadian operations.

William J. Neill [3]
DIRECTOR, OFFICER
A director since September 1999, Mr. Neill was appointed President and Chief Executive Officer of Magnifoam in November 2002. Previously, he served as Senior Vice President, Rogers Media Inc. Prior to his appointment at Rogers Media, Mr. Neill served in senior executive roles for such companies as Sun Media Corporation, the Financial Post, The Ottawa Sun, the Financial Post Magazine and DataGroup.

Robert G. Kearns [2,3,4]
DIRECTOR
Mr. Kearns has been a director of Magnifoam since November 1995. He is Chairman of Kearns Vander Meersch & Boulton Publishing Ltd. Mr. Kearns is also Chairman, The Campaign for Celtic Studies, St. Michael's College, University of Toronto, Chairman and Founder, Ireland Park Foundation, Chairman, Communities in Schools Canada and Director, The Halifax Aircraft Association.

Robert E. Lord F.C.A. [1,3]
DIRECTOR
Mr. Lord has served Magnifoam as a director since September 2000. A Chartered Accountant, he is a fellow of both the Alberta and Ontario Institutes of Chartered Accountants. Mr. Lord is a retired vice chairman of Ernst & Young, and recently served as chairman for the Canadian Institute of Chartered Accountants. He is the director of several public and private Canadian corporations and active in a number of other charitable organizations.

Major General (ret'd) Lewis MacKenzie [4]
DIRECTOR
A director since September 1997, Major General Lewis MacKenzie is President of Major General MacKenzie Communications Inc. He was a member of the Canadian Armed Forces for 33 years – nine with NATO forces in Germany – and served as Chief of Staff for the United Nations Protection Force in Yugoslavia in 1992.

Arne Strand [4]
DIRECTOR
Mr. Strand has served Magnifoam as a director since July 1999. He is Managing Director, Amber Industrial Holdings plc, a specialized industrial chemical holding company and a wholly owned subsidiary of Caledonia Investments plc. Prior to 1997 he was Chief Executive Officer of the European Adhesive and Textile Coating Division of BTP plc.

Ronald S. Brooks C.A.
OFFICER
Mr. Brooks joined Magnifoam in 1997 and is currently Senior Vice President, Chief Financial Officer and Treasurer of the Company. A Chartered Accountant, he began his career at Clarkson Gordon (now Ernst & Young). With over 15 years of banking experience, Mr. Brooks previously held the position of Vice President, Corporate Finance at Hongkong Bank.

David S. White Q.C. [2]
DIRECTOR, OFFICER
Mr. White has acted as general counsel, corporate secretary, and has served Magnifoam as a director since November 1995. He practices corporate and commercial law and is also principal, founder and director of a variety of private companies.

1 *Member of the Audit Committee*
2 *Member of the Compensation Committee*
3 *Member of the Executive Committee*
4 *Member of the Governance Committee*

Shareholder and Investor Information

STOCK LISTING
The Toronto Stock Exchange: MTG

SHARE INFORMATION
Total shares outstanding: 20,196,834
(as at March 31, 2002)

TRANSFER AGENT
For information regarding individual stock records, transactions, share certificates, or stock transfers, or to report duplicate mailings, please contact:

Computershare Trust Company of Canada
100 University Ave, 11th Floor
Toronto, ON M5J 2Y1
Toll Free: 1 800. 663. 9097

AUDITORS
BDO Dunwoody LLP

BANKERS
Royal Bank of Canada, Toronto, Ontario, Canada
Die Sparkasse Bremen, Bremen, Germany
SEB AG, Frankfurt, Germany

SECURITIES SOLICITOR
Wildeboer Rand Thomson Apps & Dellelce, LLP

CORPORATE SOLICITOR
David S. White Q.C.

INVESTOR RELATIONS
For additional information, please contact:

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F: 905. 564. 6414
Email: mti@magnifoam.ca

ANNUAL GENERAL MEETING
Shareholders and other interested parties are invited to Magnifoam's Annual General Meeting at the Toronto Stock Exchange Conference Centre, 130 King Street West, The Exchange Tower, Toronto, Ontario on Thursday, September 12, 2002 at 9:00 a.m.

CORPORATE INFORMATION

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EUROPEAN SALES AND MANUFACTURING
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T: 49. 0. 4. 21. 476. 000
F: 49. 0. 4. 21. 476. 0044
Web site: www.leewood.de

CORPORATE GOVERNANCE STATEMENT

Magnifoam has a separate Corporate Governance Committee, to ensure that the company continues to meet or exceed corporate governance guidelines, as set out by the Toronto Stock Exchange. Full corporate governance information is contained in Magnifoam's Information Circular.

Concept & design: The Works Design Communications Ltd. Coordinated by: Fleishman-Hillard Canada Inc. Principal photography: Brian Pieters Printed in Canada


MTII
MAGNIFOAM TECHNOLOGY INTERNATIONAL INC
7381 Pacific Circle
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Canada L5T 2A4
T: 905. 564. 9700
F: 905. 564. 8886
www.magnifoam.com
Our proprietary silicone foam spacers help make these firefighter suits lighter and more durable than garments made from traditional materials.
Magnifoam Technology International Inc. (MTII) designs, develops and manufactures custom-engineered products using silicone and other cellular materials. The company's common shares trade on the Toronto Stock Exchange, under the trading symbol "MTG".
Highest thermal protection
Low heat stress
Reduced insulation weight by 50%
Quicker re-drying time due to lower sweat absorption
Greater freedom of movement
We are
Magnifoam Technology International Inc.